

Introduction

The Hotel Loans Advisory Committee was set up in January 1967 by the then President of the Board of Trade to advise the Board on applications for loans under an experimental scheme to assist hotel development which was announced by the Prime Minister on 20th July 1966. The Members of the Committee were:

Sir William Slimmings, CBE
Sir Leonard Cooke, OBE, JP
Sir David Davies
Mr. E. G. Garner, MC
Mr. A. W. Hardie, ERD
Mr. C. R. Hinds Howell
Professor S. Medlik

Sir William Slimmings was Chairman of the Committee until March 1968 when he was succeeded by Sir Leonard Cooke.

The Committee recommended to the Board of Trade that loans should be offered in 26 cases. Fifteen of the loans offered were eventually accepted, the total amount lent under the scheme being £2·4 million.

The work of the Committee is of particular interest in that experience gained in operating the experimental loans scheme helped in formulating the hotel development incentives scheme, for which Part II of the Development of Tourism Act now provides.

*To The Rt. Hon. Anthony Crosland, MP
President of the Board of Trade*

We were appointed by your predecessor, The Rt. Hon. Douglas Jay, MP, on 10 January 1967 'To consider such applications for Development Loans for hotels as are referred to them by the Board of Trade; and to advise the Board of Trade whether and, if so, in what amounts and on what terms and conditions loans should be offered in respect of such applications, having regard to such general principles as the Board of Trade may from time to time prescribe'.

We now have the honour to submit our Report.

LEONARD COOKE (*Chairman*)
D. J. DAVIES
E. C. GARNER
A. W. HARDIE
C. R. HINDS HOWELL
S. MEDLIK

N. K. SVENDSEN, *Secretary*
25 June 1969

Experimental Hotel Loans Scheme 1967/8

Report of the Hotel Loans Advisory Committee (HOLAC)

We have held a total of 21 meetings, the first being on 8 February 1967 and the last on 12 February 1969. Sir William Slimmings, CBE, was our Chairman for the first 14 meetings and we record here our indebtedness for the guidance given to us during this period until he relinquished this task in March 1968 on being elected Vice President of the Institute of Chartered Accountants of Scotland.

2 The Board of Trade prescribed general principles for us to take into account before tendering advice on loan applications. A copy of these general principles is at Appendix A. In particular, we were asked to pay full regard to the following criteria:

'Loans shall be recommended only:

- (i) for developments which in the opinion of the Advisory Committee will provide accommodation of the type and standard likely to be acceptable to overseas visitors and will result in significant new or increased earnings from overseas guests staying at the hotel;
- (ii) where the Advisory Committee are satisfied that there are good prospects of the undertaking being carried on successfully.'

In January 1968 the Board of Trade amended the general principles to enable us to consider applications received during the first quarter of 1968 in addition to those received during the calendar year 1967 and also to recommend that the term of any loan for the construction of a new hotel might be for a period not exceeding twenty years, instead of fifteen years which was the limit previously prescribed.

The overseas visitor criteria

3 The Hotel Loans Scheme was criticised by the industry on the grounds that the overseas visitor criteria seemed to limit the scope of the scheme to hotels with an 'export potential'. But against a background of a widening deficit in the balance of payments on travel account when the decision to introduce the scheme was made, the need for criteria of this kind is understandable. We would admit that the hotel industry has some grounds for its criticism. Traditionally, overseas visitors are more numerous in London and other well-known centres than they are in Scotland (except in Edinburgh), in Wales or in much of the rest of

England. We feel that this was a factor which had an inhibiting effect on potential applicants, who may in consequence have decided not to make an application, in those areas so far not well favoured by overseas visitors even though possessing great potential for the development of this kind of traffic. Where we were uncertain about the overseas visitor prospects of a project, it has been our practice to give the applicant some benefit of the doubt, recognising that it is often not until the introduction of more attractive accommodation that there can be an expansion of overseas visitor business. We were at first reluctant to take into account potential overseas business visitor traffic but since these may make up as many as one in five of visitors from abroad in certain localities, and are an important trade for hotels in provincial towns, we concluded that such traffic was as deserving of assistance as overseas holiday visitor business. In practice, we found the overseas visitor criteria, because of their essentially subjective nature, difficult to apply consistently.

Terms and conditions of loans

4 The conditions embracing for example, repayment period, security, etc., which we recommended are, we consider, broadly in line with those conditions applied to term loans offered by commercial institutions, and are also comparable to those conditions for loans made to other enterprises, in development areas, under the Local Employment Acts. We were under instructions from the Board of Trade to recommend that each loan should be secured in a specified manner, being the best security which the circumstances of the particular case permitted. We would record here that, occasionally, we have felt able to recommend that the guarantee of a parent public company would be sufficient and appropriate security. In other cases, notably where there was already substantial borrowing, we found it necessary to recommend that a fixed charge over the hotel property should be accompanied by floating charges or personal guarantees, or the provision of collateral security, etc. In order to ensure the continued viability of the project and the borrower's ability to repay the Board's loan, we have thought it prudent in some instances to recommend that limitations be placed upon the applicants capital expenditure, dividend distribution, and the remuneration of directors. We are aware that there is some feeling that the terms and conditions for loans were onerous and made the scheme unattractive to hoteliers. For the reasons we have advanced above, we regard such criticism as misconceived. We found that most applicants readily appreciated the necessity for these terms and conditions when the reasons for them were explained.

5 It is always to be borne in mind that a decision to make any loan depends largely on the extent to which the completion of the project can be expected to produce a basis of continuing profitability at least adequate to provide for repayment of both principal and interest, not only of the Board's loan but also of any other sums borrowed, and, additionally, having regard to the fact that the scheme involves the disbursement of public moneys, that there are also good prospects of the enterprise being able to earn sufficient as will ensure an appropriate contribution towards the financing of normal operating and expansion requirements. The conditions on which we have recommended loans have always been framed with these considerations in mind.

Procedures

6 The loan scheme applied to hotel projects where work on the site for them had started on or after 20 July 1966 (the day on which an outline of the scheme was first announced by the Prime Minister). The main conditions of the scheme were announced by the President of the Board of Trade on 6 December 1966 and applications were invited from 1 January 1967. Applications received by the Board of Trade were first examined by them to see whether they were *prima facie* within the announced conditions of the scheme, notably as regards the starting dates of the projects. Of the 139 applications received by the time the scheme closed for applications on 31 March 1968, 17 applications were not referred to us for consideration, either because work on the sites for the projects was found to have been started before 20 July 1966 or because the establishments concerned were manifestly not hotels. From the outset, we decided that it was not practicable for us to entertain any application involving a project for which any necessary outline planning permission had not been obtained from the local authority since, in the absence of that permission we felt there could be no reasonable assurance that the project would in fact proceed. We therefore advised the Board that they should not refer applications to us in those cases where planning permission had yet to be granted. In 18 cases, applications did not proceed either because of this lack of planning permission or because the applicants decided not to take their applications further. The remaining 104 applications were referred to us for consideration on at least one occasion.

7 Each application was considered by us in conjunction with a report prepared by an advisory officer. Two advisory officers, each having

extensive experience of the hotel industry, were appointed by the Board of Trade to assist us and their duties included visiting each applicant and reporting in detail on the nature of their projects and on the hotels prospects as viewed in the light of the scheme's overseas visitor criteria. If, after considering the advisory officer's report, we were satisfied that a project met the overseas visitor criteria, the applicant was then asked to provide us, in confidence, with certain financial information with a view to our assessing the financial viability of each project and to establishing that there would be adequate available security for any loan.

In effect our consideration of applications was divided into two stages, the second stage being the consideration of the financial information. We felt that it was desirable not to put an applicant to the expense and difficulty of providing this information until we were certain that compliance with the overseas visitor criteria justified our giving consideration to the financial aspects of the project.

8 Thirty-seven applicants proved unable to provide financial information or in due course decided they did not wish to proceed with their applications. However, a further 40 applicants did provide this information and financial reports were prepared for us on their projects by the Accountants Division of the Board of Trade. We are aware that there has been criticism concerning the amount and content of the financial information which was requested in order to enable us to assess each project's viability. However, we consider that any applicant deserving of assistance from public funds should, in his own interest, already have collected information of the kind which we required (e.g. past trading accounts, forward estimates of income and expenditure, etc.) before deciding to proceed with his project. It is apparent to us, from the reports prepared at our request, that some hotels do not make as much use as they might of modern accounting techniques; indeed, it seemed to us that many applicants possessed very meagre basic accounting records. Not only does this betoken lack of a sound approach to business on their part but it made it difficult to appraise the viability of their projects. It was also apparent that some applications had been made before the applicants had attempted seriously to assess for themselves the likely viability of their projects.

9 At the same stage at which we gave consideration to questions of financial viability, we also considered reports prepared by the surveyors of the Ministry of Public Buildings & Works on the extent to which the constructional work and equipment involved in projects were eligible for loan assistance within the provision of the scheme.

10 In 26 cases, we felt able to recommend to the Board that loans should be offered. In each of these cases, in accordance with the general principles prescribed by the Board, our recommendations embraced both the terms on which loans were eventually offered and the conditions which were attached to the offers. A table showing the outcome of the applications received under the scheme is attached at Appendix B.

11 Among the cases with which we have been concerned were several where the applicant was one of a group of loosely associated companies having a minimal share capital and owned by a small number of persons; some or all of the companies concerned being heavily dependent upon loan capital or on inter-company borrowing. In these cases we found it necessary to examine the affairs of all the companies in the group in order to make a proper assessment of the applicant's financial position. The result of our examination of these cases invariably prompted us to include in our recommendations additional conditions designed to safeguard the applicant's capacity to repay any loan. Although these conditions provoked criticism from some quarters, we have always taken the view that, given the object and the spirit of the scheme, it was preferable to make every effort to find a basis on which a loan of public funds could be properly made even if this meant recommending conditions which circumscribed the borrower's freedom of action, except with the prior consent of the Board, as regards his other capital expenditure, directors remuneration, or inter-company borrowing.

Success of the scheme

12 In our view, the experimental loan scheme can be judged a qualified success within its limited sphere of operation. We were able to recommend that a loan be made towards almost one out of five of the projects for which assistance was sought. Compared with the £5 million allocated to the scheme, we have been able to recommend loans totalling £3·5 million for 26 projects. Although a number of offers were not accepted, on the figures set out in Appendix B we would consider that the scheme has been far from being a failure. We understand that the number and value of offers which were eventually accepted excludes three, for loans totalling £0·9 million which were originally accepted; in these three cases the applicants decided eventually to adopt alternative financing plans and the necessity for Board of Trade loans disappeared. We were pleased to learn that in at least one of these cases it was the

offer of a Board of Trade loan that enabled the applicant to persuade other institutions to provide alternative finance on satisfactory terms. Overall, it proved possible to offer loans, for projects meeting the scheme's overseas visitor criteria, which amount to 71 per cent of the £5 million originally allocated. We understand that 15 of the offers of loans were accepted and that these were for a total of £2·4 million, or just under half of the amount originally allocated.

13 Of other offers of loans which were rejected, we understand that some were rejected because of a preference for other forms of assistance, for example of a kind available under the Local Employment Acts. It is conceivable that some applicants may have withdrawn their applications in anticipation of more favourable assistance under the proposed Hotel Development Incentives Scheme announced in March 1968. For a number of projects this is understood to have been the case. Some potential applicants may have withheld applications as a result of this announcement.

14 It should not be overlooked that one of the benefits of the Hotel Loans Scheme lies in the fact that it has provided valuable experience in the administration and planning of Government financial assistance to hotels in Britain. The scheme may be said to have paved the way for the Hotel Development Incentives scheme, to the early introduction of which we look forward. We do not think it appropriate to dwell on the matter in this report but we wish to say, however, that we are glad to have had the opportunity during the course of our work as a Committee to offer advice and to make certain recommendations as regards the preparation of the new scheme.

Conclusion

15 In conclusion, we should place on record our appreciation of the assistance which we have received from Mr. N. K. Svendsen, as Secretary, from Lieutenant-Colonel G. W. H. Innes, MBE, and Mr. R. W. B. Fraser, as advisory officers, and also from the staff of the Board of Trade's Accountants Division and of the Chief Quantity Surveyors Department in the Ministry of Public Building & Works.

General principles for which the Hotel Loans Advisory Committee should have regard in advising the Board of Trade

The following are the general principles prescribed by the Board of Trade for which the Hotel Loans Advisory Committee should have regard in formulating its advice to the Board:

- 1 The hotel loans scheme shall operate for an experimental period of fifteen months ending on 31 March 1968: loans may be recommended in respect of applications made during that period up to a total of £5 million.
- 2 Loans shall be recommended only:
 - (i) for developments which in the opinion of the Advisory Committee will provide accommodation of a type and standard likely to be acceptable to overseas visitors and will result in significant new or increased earnings from overseas guests staying at the hotel;
 - (ii) where the Advisory Committee are satisfied that there are good prospects of the undertaking being carried on successfully.
- 3 Loans shall be related to developments or improvements involving capital expenditure of not less than £20,000 on:
 - (i) new buildings and/or
 - (ii) extensions or structural improvements of buildings and/or
 - (iii) procurement and installation of fixed plant and machinery.
- 4 No loan shall be recommended in respect of projects completed at the time of application for loan or on which work had begun on the site before 20 July 1966.
- 5 No loan in excess of £500,000, or in excess of 50 per cent of the estimated expenditure on eligible development or improvement, shall be recommended without the prior approval of the Board of Trade.

6 No loan shall be recommended in respect of expenditure which may qualify for assistance under the Local Employment Acts 1960 to 1966 or from other official sources, unless the applicant has confirmed that he has not applied for and will not apply for such other assistance.

7 The terms and conditions of loans shall *inter alia*:

- (i) specify the date on which the first instalment of repayment shall fall due; such date to be the earliest date which in the Committee's opinion will be reasonable in the light of the development's prospects of becoming sufficiently profitable, and in any case not later than two years after the date when the borrower is expected by the Committee to become able to qualify for drawing the last instalment of the loan;
- (ii) specify the intervals at which instalments shall be paid, and the amount of each instalment; the terms of repayment to be such that the term of a loan from the date of the last advance in no case exceeds fifteen years for projects other than new hotels for which the term of a loan shall not exceed 20 years;
- (iii) specify that interest shall be charged at the Exchequer Lending Rate prevailing at the date on which the loan is offered and shall be payable on specified dates. No interest-free period shall be allowed;
- (iv) provide that advances shall be dependent on evidence satisfactory to the Board of Trade that eligible expenditure has been incurred to the extent (save in cases where the Board have approved a loan in excess of 50 per cent of the estimated expenditure) of at least twice the amount of advances.

8 Unless otherwise agreed by the Board the Advisory Committee shall recommend that each loan shall be secured in a specified manner, being the best security which the circumstances of the particular case permit.

Hotel Loans Scheme 19676/8

Progress of Applications for Hotel Development Loans

	TOTAL		ENGLAND		WALES		SCOTLAND	
	No.	Loan £m	No.	Loan £m	No.	Loan £m	No.	Loan £m
TOTAL APPLICATIONS RECEIVED BY BOARD OF TRADE	139	13.570*	126	13.138*	8	.215	5	.217
1 Not pursued or found by Board of Trade to be outside the scope of the scheme	35	2.599	27	2.349	5	.134	3	.116
2 Referred to the Committee and considered by them—the initial determination on overseas visitor grounds (Stage I) ..	104	10.784	99	10.602	3	.081	2	.101
3 Rejected at Stage I by the Committee ..	27	1.823	27	1.823	—	—	—	—
4 Referred at Stage I for investigation of financial viability (Stage II)	77	8.961	72	8.779	3	.081	2	.101
5 Withdrawn by applicants prior to Stage II consideration ..	37	4.430	34	4.305	2	.070	1	.055
6 Investigated on financial viability grounds and considered by the Committee (Stage II)	40	4.531	48	4.474	1	.011	1	.046
7 Rejected at Stage II by the Committee ..	14	1.005	13	.994	1	.011	—	—
8 Loans recommended	26	3.526	25	3.480	—	—	1	.046

* These totals include £0.187m which was applied for but not recommended.



BOARD OF TRADE

Loans for hotel development

report of the
Hotel Loans Advisory Committee



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